

Report  
of the  
Examination of  
Shelby Farmers' Mutual Insurance Company  
West Salem, Wisconsin  
As of December 31, 2003

## TABLE OF CONTENTS

	Page
I. INTRODUCTION .....	1
II. REINSURANCE .....	6
III. FINANCIAL DATA .....	8
IV. SUMMARY OF EXAMINATION RESULTS.....	13
V. CONCLUSION .....	26
VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS .....	27
VII. ACKNOWLEDGMENT .....	28



# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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May 14, 2004

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Honorable Jorge Gomez  
Commissioner of Insurance  
State of Wisconsin  
125 South Webster Street  
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of  
December 31, 2003, of the affairs and financial condition of:

SHELBY FARMERS' MUTUAL INSURANCE COMPANY  
WEST SALEM, WISCONSIN

and the following report thereon is respectfully submitted:

## I. INTRODUCTION

The previous examination of Shelby Farmers' Mutual Insurance Company (the company) was made in 1999, as of December 31, 1998. The current examination covered the intervening time period ending December 31, 2003, and included a review of such subsequent transactions deemed essential to complete this examination.

The "Summary of Examination Results" contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was organized as a town mutual insurance company on October 19, 1874, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Shelby Farmers' Mutual Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were two amendments to the articles of incorporation and no amendments to the bylaws. The nature of both of the amendments was for the company to decrease the number of directors to seven.

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance. The company is currently licensed to write business in the following counties:

Buffalo  
Jackson  
La Crosse

Monroe  
Trempealeau  
Vernon

A review was made of the policy and application forms currently used by the company. The company issues an approved policy with or without endorsements for terms of one year with premiums payable on the advance premium basis. Policy fees charged policyholders are retained by the company.

Business of the company is acquired through 18 agents, five of whom are directors of the company. Agents presently receive a 15% commission on all policies written.

Agents have authority to adjust losses up to \$1,000. Losses in excess of this amount are adjusted by home office personnel. Adjusters receive \$15.00 for each loss adjusted plus \$0.32 per mile for travel allowance.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

#### **Board of Directors**

The board of directors consists of seven members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

<b>Name</b>	<b>Principal Occupation</b>	<b>Residence</b>	<b>Expiry</b>
John J. Ebert*	Retired	West Salem	2004
Valerie Knutson*	Secretary/Office Manager	Bangor	2004
Gordon Miller*	Farming	West Salem	2005
Sylvester Clements	Farming	West Salem	2005

Fred Pederson	Farming	West Salem	2005
Donald Bay*	Retired	La Crosse	2006
Rhonda Simonson*	Insurance/Farming	Tomah	2006

Directors who are also agents are identified with an asterisk.

Members of the board currently receive \$35.00 for each meeting attended.

### **Officers**

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified. Officers serving at the present time are as follows:

<b>Name</b>	<b>Office</b>	<b>2003 Salary</b>
Gordon Miller	President	\$500/year
Donald Bay	Vice-President	\$200/year
Valerie Knutson	Secretary	\$6,000/year*
John J. Ebert	Treasurer	\$400/year

\* Also received \$22,000 in manager salary for 2003.

### **Committees of the Board**

The company's bylaws allow for the formation of certain committees by the board of directors. The committee at the time of the examination is listed below:

#### **Adjusting Committee**

Donald Bay  
Sylvester Clements  
Rhonda Simonson

## Growth of Company

The growth of the company since the previous examination as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2003	\$269,118	798	(\$29,978)	\$787,608	\$511,702
2002	223,993	685	21,752	729,011	504,971
2001	201,443	598	(25,389)	668,976	495,686
2000	207,162	595	49,713	717,872	535,115
1999	216,329	652	(47,000)	690,171	508,052
1998	225,618	700	(36,527)	779,126	557,427

The ratios of gross and net premiums written to surplus as regards policyholders since the previous examination were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Net	Ratios Gross
2003	\$523,201	\$312,054	\$511,702	61%	102%
2002	418,534	256,807	504,971	51	83
2001	329,019	205,717	495,686	42	66
2000	327,175	195,379	535,115	37	61
1999	350,571	215,876	508,052	42	69
1998	348,149	221,098	557,427	40	63

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Composite Ratio
2003	\$162,696	\$111,032	\$269,118	61%	35%	96%
2002	109,506	101,829	223,993	50	38	88
2001	169,476	77,150	201,443	84	38	122
2000	105,576	77,629	207,162	51	40	91
1999	200,239	91,444	216,329	93	42	135
1998	199,608	87,989	225,618	89	39	128

The company has experienced underwriting losses in three of the last five years due to the high loss ratio the company has incurred. The company was unable to completely offset these underwriting losses with its investment income and, as a result, reported net losses.

Policies in force has increased significantly in the last two years, consequently net premiums written has also increased. The increase in premium was split between homeowners 45%, farms 35%, rented dwellings 15%, and miscellaneous business of 5%. This increase is

primarily due to the company picking up lines of business that other companies have ceased writing. The company relies on their agents to inspect new business, see the underwriting section for details of this process. Despite the mixed results reported over the examination period, the company's surplus has remained strong relative to its losses and premium written.

## II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Grinnell Mutual Reinsurance Company
Effective date:	January 1, 1997
Termination provisions:	Last day of any calendar year by either party with at least 90 days' notice in writing

The coverages provided under this treaty are summarized as follows:

- |                      |  |
|----------------------|--|
| Type of contract:    | Individual Occurrence of Loss  |
| Lines reinsured:     | Property   |
| Company's retention: | \$50,000   |
| Coverage:            | 100% of an individual occurrence loss above the company's retention  |
| Reinsurance premium: | \$0.0516 (monthly rate) on the Adjusted Gross Fire Risk in Force per \$1,000 at the end of each month during the contract year |
- |                      |  |
|----------------------|--|
| Type of contract:    | Aggregate excess reinsurance section   |
| Lines reinsured:     | Property   |
| Company's retention: | Annual net losses not exceeding the defined retention limit  |
| Coverage:            | 100% of amounts exceeding the annual statement retention limit of \$249,096  |
| Reinsurance premium: | \$0.0495 (monthly rate) on the Adjusted Gross Fire Risk in Force per \$1,000 at the end of each month during the contract year |
- |  |  |
|--|--|
| Type of contract:                      | Facultative reinsurance section  |
| Lines reinsured and coverage provided: | These terms are determined on a per-risk basis with limits set forth in the contract |

4.	Type of contract:	Liability section
	Lines reinsured:	Personal Liability
	Company's retention:	0
	Coverage:	100%
	Reinsurance Premium:	100% premiums charged
	Ceding commission:	20% of ceded premium

### III. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2003, annual statement.

Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

**Shelby Farmers' Mutual Insurance Company**  
**Statement of Assets and Liabilities**  
**As of December 31, 2003**

<b>Assets</b>	<b>Ledger</b>	<b>Nonledger</b>	<b>Not Admitted</b>	<b>Net Admitted</b>
Cash deposited in checking account	\$ 1,527	\$ 0	\$ 0	\$ 1,527
Cash deposited at interest	534,682			534,682
Bonds	35,000			35,000
Stocks and mutual fund investments	61,280			61,280
Real estate	59,630			59,630
Premiums, agents' balances and installments:				
In course of collection	16,202		236	15,966
Deferred and not yet due	72,131			72,131
Investment income accrued		1,217		1,217
Electronic data processing equipment	784			784
Other expense related assets:				
Commission Receivable-Deferred Liab Prem	2,015			2,015
Other nonexpense related assets:				
Federal income tax recoverable	2,725			2,725
Book of Business	651			651
Furniture and fixtures	961		961	
<b>Totals</b>	<b><u>\$787,588</u></b>	<b><u>\$1,217</u></b>	<b><u>\$1,197</u></b>	<b><u>\$787,608</u></b>

**Shelby Farmer' Mutual Insurance Company**  
**Statement of Assets and Liabilities (cont.)**  
**As of December 31, 2003**

**Liabilities and Surplus**

Net unpaid losses	\$ 3,188
Unpaid loss adjustment expenses	130
Commissions payable	21,572
Fire department dues payable	629
Unearned premiums	206,081
Reinsurance payable	16,441
Amounts withheld for the account of others	820
Payroll taxes payable (employer's portion)	222
Other liabilities:	
Expense related:	
Accounts payable	2,685
Accrued property tax	1,743
Accrued Salaries and Wages	4,856
Nonexpense related:	
Premiums received in advance	7,060
Rental Security Deposit	400
Due Grinnell	<u>10,079</u>
Total Liabilities	275,906
Policyholders' surplus	<u>511,702</u>
Total Liabilities and Surplus	<u><u>\$787,608</u></u>

**Shelby Farmers' Mutual Insurance Company**  
**Statement of Operations**  
**For the Year 2003**

Net premiums and assessments earned		\$269,118
Deduct:		
Net losses incurred	\$147,140	
Net loss adjustment expenses incurred	15,556	
Other underwriting expenses incurred	<u>111,032</u>	
Total losses and expenses incurred		<u>273,728</u>
Net underwriting gain (loss)		(4,610)
Net investment income:		
Net investment income earned	(422)	
Net realized capital gains	<u>(31,178)</u>	
Total investment gain (loss)		(31,600)
Other income:		
Billing Charges	7,594	
Total other income		<u>7,594</u>
Net income (loss) before federal income taxes		(28,616)
Federal income taxes incurred		<u>1,362</u>
Net Income (Loss)		<u>(\$ 29,978)</u>

**Shelby Farmers Mutual Insurance Company**  
**Reconciliation and Analysis of Surplus as Regards Policyholders**  
**For the Five-Year Period Ending December 31, 2003**

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
Surplus, beginning of year	\$504,971	\$495,686	\$535,115	\$508,052	\$557,427
Net income	(29,978)	21,752	(25,389)	49,713	(47,000)
Net unrealized capital gains or (losses)	36,517	(12,974)	(14,862)	(23,943)	(2,075)
Change in non-admitted assets	192	507	822	1,293	(300)
Surplus, end of year	<u>\$511,702</u>	<u>\$504,971</u>	<u>\$495,686</u>	<u>\$535,115</u>	<u>\$508,052</u>

### **Reconciliation of Policyholders' Surplus**

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2003, is accepted.

#### IV. SUMMARY OF EXAMINATION RESULTS

##### Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Disaster Recovery Plan – It is recommended that the company develop a disaster recovery plan.

Action—Compliance.

2. Invested Assets – It is recommended that the company develop a written investment plan in compliance with s. Ins 6.20 (6) (h), Wis. Adm. Code.

Action—Compliance.

## **Current Examination Results**

### **Corporate Records**

The minutes of the annual meetings of policyholders and meetings of the board of directors and committees thereof, were reviewed for the period under examination and also for the subsequent period.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

### **Conflict of Interest**

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

### **Fidelity Bond and Other Insurance**

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

<b>Type of Coverage</b>	<b>Coverage Limits</b>
Fidelity bond	\$ 100,000
Workers Compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	\$ 100,000
Each employee	\$ 100,000
Policy limit	\$ 500,000
Business Owner's Property	
Liability	\$ 500,000
Medical Expense	\$ 5,000 per person
Fire legal liability	\$ 50,000 any one fire or explosion
Agents Errors and Omissions	\$ 1,000,000 each claim and in aggregate
Professional Liability(A)	\$ 1,000,000 each claim and in aggregate
Directors and officers Liability(B)	\$ 1,000,000 each claim and in aggregate
Total for (A) and (B) noted above	\$ 1,000,000 aggregate for Policy Period

### **Underwriting**

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company has a formal inspection procedure for both new and renewal business. A sampling of new applications and renewal business is inspected by committee members who are independent of the risk under consideration and review. Various reports are completed by the company's agents before accepting new business these include supplemental application forms, farm inventory sheets and cost estimator forms. Agents must physically inspect all property for which an application or change in coverage is submitted. Photographs are taken of all buildings located on farm risks whether requesting coverage or not. Renewals are inspected every three years and new photographs are taken. Annually, the company performs in-office review, which includes reviews of claim history, coverage types, and coverage amounts.

### **Claims Adjusting**

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

## **Accounts and Records**

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2003.

The company is audited annually by an outside public accounting firm.

## **EDP Environment**

Company personnel were interviewed with respect to the company's electronic data processing environment. Access to the computers are limited to people authorized to use the computers. Company personnel back up the computers daily and the backed-up data is kept off-site.

A manual which describes how to use the company's software and outlines the steps to complete specific tasks assists in the continuity of operations for seldom-used applications, training, or when staff turnover occurs. The company has manuals documenting the use of its software.

## **Business Continuity Plan**

A business continuity plan identifies steps to be performed by a company in the event of business interruptions including, but not limited to the inability to access its computer, the loss of information on its computer, the loss of a key employee, or the destruction of its office building.

The company has developed a business continuity plan. The company's business continuity plan appears to be adequate.

### **Invested Assets**

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

- (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
- (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is not in compliance with these requirements. The invested assets of the company are purchased and retained by the investment managers of the company. It is recommended that the company comply with s. 610.23, Wis. Stat., as regards custody and control of its invested assets.

### **Investment Rule Compliance**

The investment rule for town mutual insurers allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1. Liabilities plus \$300,000	\$575,906
2. Liabilities plus 33% of gross premiums written	448,562
3. Liabilities plus 50% of net premiums written	431,933
4. Amount required (greater of 1, 2, or 3)	575,906

5. Amount of Type 1 investments as of 12/31/2003	<u>571,211</u>
6. Excess or (deficiency)	<u><u>(\$ 4,695)</u></u>

The company does not have sufficient Type 1 investments.

The investment rule prescribes that a town mutual shall divest any investment which does not comply with the rule within three years of its noncompliance, unless the Commissioner permits a longer period or requires a shorter period. Subsequent to year end the company has divested of a Type II investment and reinvested the funds into a Type I investment and is currently Type I sufficient.

## **ASSETS**

### **Cash and Invested Cash**

**\$536,209**

The above asset is comprised of the following types of cash items:

Cash deposited in banks-checking accounts	\$ 1,527
Cash deposited in banks at interest	<u>534,682</u>
Total	<u>\$536,209</u>

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in a local bank. Verification of checking account balances was made by obtaining confirmations directly from the depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of thirteen deposits in seven depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2003 totaled \$5,227 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 1.35% to 2.81%. Accrued interest on cash deposits totaled \$1,183 at year-end.

The company deposits cash receipts two or three times a week. The cash received between the deposits is retained in a file cabinet drawer. The company should retain cash receipts in a locked fireproof drawer. Also noted during the examination, the company left checks which had been signed by one officer on a desk overnight to make them more readily available for a second officer to sign the next day. It is recommended that the company retain cash receipts and cash disbursements waiting to be mailed or deposited in a locked drawer.

### **Book Value of Bonds**

**\$35,000**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2003. Bonds owned by the company are being retained by the investment managers of the company.

Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 2003 on bonds amounted to \$0 the bond was purchased in late December 2003. Accrued interest of \$34 as of December 31, 2003, was checked and allowed as a nonledger asset.

**Stocks and Mutual Fund Investments** **\$61,280**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2003. Stocks owned by the company are located in the safety deposit box.

Stock certificates were physically examined by the examiners. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2003 on stocks and mutual funds amounted to \$1,068 and were traced to cash receipts records.

**Book Value of Real Estate** **\$59,630**

The above amount represents the company's investment in real estate as of December 31, 2003. The company's real estate holdings consisted of the home office building and improvements. The company purchased this home office building on December 29, 1997, and received OCI approval for this purchase. The building includes an upper story, which the company rents out as an apartment. The examiner reviewed the lease agreement noting no unusual items.

The required documents supporting the validity of this asset were reviewed and were in order. Adequate hazard insurance was carried on the real estate and contents as noted under the caption, "Fidelity Bond and Other Insurance." The company's investment in real estate and

related items was in conformance with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. Real estate depreciation is calculated using the straight line method.

**Premiums, Agents' Balances in Course of Collection** **\$15,966**

This asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of individual agent's accounts verified the accuracy of this asset.

**Premiums Deferred and Not Yet Due** **\$72,131**

This asset represents modal premium installments (such as monthly, quarterly, etc.) that are not yet due. A review of a sample from the company's detailed list of deferred premiums verified the accuracy of this asset.

**Investment Income Due and Accrued** **\$1,217**

Interest due and accrued on the various assets of the company as of December 31, 2003, consists of the following:

Cash at Interest	\$1,183
Bonds	<u>34</u>
Total	<u>\$1,217</u>

**Electronic Data Processing Equipment** **\$784**

The above balance consists of computer hardware and operating system software, net of depreciation as of December 31, 2003. A review of receipts and other documentation verified the balance. Non-operating system software was properly nonadmitted.

**Furniture and Fixtures** **\$0**

This asset consists of \$961 of Furniture and Equipment owned by the company as of December 31, 2003. In accordance with annual statement requirements, this amount has been deducted as nonadmitted asset.

**Commissions Receivable – Deferred Liability Premium****\$2,015**

This asset consists of commissions due to the company on deferred liability premiums to be ceded to its reinsurer. The company receives 20% commission on liability premium ceded. A review of the commission schedule and the documentation verifying the liability premium balance was used to verify the accuracy of this asset.

**Book of Business****\$651**

This asset consists of a block of business the company has purchased from an agent who has since died for \$5,633 which is being amortized over a 60 month period. When an agent retires or dies the company offers the book of business previously managed by that agent to other agents. If the book of business is not accepted by any other agents then the book of business is managed by the company. This asset does not meet the qualifications of an admitted asset in statutory accounting; since, it is not readily marketable and available for current and future obligations. An adjustment to surplus has not been made in this case because the current balance is immaterial. However, it is recommended that the company non-admit assets on future annual statements which do not qualify as admitted assets pursuant to statutory accounting.

**Federal Income Taxes Recoverable****\$2,725**

This asset represents the balance refundable at year-end for federal income taxes incurred prior to December 31, 2003. The examiners reviewed the company's 2003 tax return and verified amounts due to cash receipts records to verify the accuracy of this asset.

## LIABILITIES AND SURPLUS

### Net Unpaid Losses

**\$3,188**

This liability represents losses incurred on or prior to December 31, 2003, that remained unpaid as of that date. The examiners reviewed the reasonableness of this liability by totaling actual loss payments made subsequent to December 31, 2003, with incurred dates in 2003 and prior years. To the actual paid loss figure was added an estimated amount for 2003 and prior losses remaining unpaid at the examination date. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	<b>Company Estimate</b>	<b>Examiners' Development</b>	<b>Difference</b>
Incurred but unpaid losses	\$141,773	\$ 141,773	\$ -0-
Less: Reinsurance recoverable on unpaid losses	<u>138,585</u>	<u>138,585</u>	<u>-0-</u>
Net Unpaid Losses	<u>\$ 3,188</u>	<u>\$ 3,188</u>	<u>\$ -0-</u>

There were no differences noted in the development of the unpaid losses.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were not properly signed.

A sample of claims was reviewed noting three proof of loss statements which were not signed by the claimant. It is recommended that the company develop and implement a policy to ensure that proof of loss statements are being signed by the claimant for losses above a dollar amount determined by the company.

**Unpaid Loss Adjustment Expenses** **\$130**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2003, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability to record the actual known payable as of December 31, 2003.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

**Commissions Payable** **\$21,572**

This liability represents the balance payable at year-end for commissions to agents. Supporting records and subsequent cash disbursements verified this amount to be fairly stated.

**Fire Department Dues Payable** **\$629**

This liability represents the fire department dues payable as of December 31, 2003. The examiners reviewed the company's fire department dues calculation and found this liability to be correctly calculated. The actual amount paid was verified to the cash disbursement records. Subsequent cash disbursements verified the amount of this liability.

**Unearned Premiums** **\$206,081**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established by a computer software program using a daily pro rata method based on 365 days.

**Reinsurance Payable** **\$16,441**

This liability consists of amounts due to the company's reinsurer as of December 31, 2003, relating to transactions which occurred on or prior to that date.

Total Reinsurance Premium Due	\$ 11,307.51
Gross Liability Premium Ceded	6,417.24
Commissions Earned	<u>(1,283.41)</u>
Reinsurance Payable	<u>\$ 16,441.34</u>

Subsequent cash disbursements verified the amount of this liability.

**Amounts Withheld for the Account of Others** **\$820**

This liability represents employee payroll deductions in the possession of the company as of December 31, 2003. Supporting records and subsequent cash disbursements verified this item.

**Payroll Taxes Payable** **\$222**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2003, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

**Accounts Payable** **\$2,685**

This liability represents miscellaneous fees to agents, director's payments for attending meetings, certificate of authority fee and amounts due for office supplies incurred prior to December 31, 2003, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

**Accrued Property Taxes** **\$1,743**

This liability represents property taxes payable as of December 31, 2003. Supporting records and subsequent cash disbursements verified this amount to be fairly stated.

**Premiums Received in Advance** **\$7,060**

This liability represents the total premiums received prior to year end for policies with effective dates after December 31, 2003. The examiners reviewed 2003 premium and cash receipt records to verify the accuracy of this liability.

**Rental Security Deposit** **\$ 400**

This liability represents a \$400 security deposit received for the leased apartment in the home office building. Supporting records and cash receipts verified this item.

**Due to Reinsurer** **\$10,079**

This liability represents the amount of the liability premium that is included in the deferred premium receivable. The company cedes 100% of their liability premium to its reinsurer. To properly account for the liability premium included in the deferred premium receivable the company has established an equal liability, as a balance due to the reinsurer.

## **V. CONCLUSION**

The company reported admitted assets of \$787,608, liabilities of \$275,906, and policyholders' surplus of \$511,702. Surplus has fluctuated over the last five years due to the company's mixed underwriting results. The company's investment income has not completely offset the underwriting losses they have experienced in three of the last five years. The company continues to tighten its underwriting guidelines to help control their underwriting losses. Policies in force and premiums written have increased significantly since the last examination. This increase is primarily due to the company picking up lines of business that other companies have ceased writing. The increase in premium was split between homeowners 45%, farms 35%, rented dwellings 15%, and miscellaneous business of 5%.

The two recommendations made in the previous examination report were complied with. Four recommendations were made in the current examination. The recommendations are listed in summary form on the following page.

## VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 17 - Bonds— It is recommended that the company comply with s. 610.23, Wis. Stat., as regards custody and control of its invested assets.
2. Page 19 - Cash— It is recommended that the company retain cash receipts and cash disbursements waiting to be mailed or deposited in a locked drawer.
3. Page 22 - Book of Business— It is recommended that the company non-admit assets on future annual statements which do not qualify as admitted assets pursuant to statutory accounting.
4. Page 23 - Accounts and Records— It is recommended that the company develop and implement a policy to ensure that proof of loss statements are being signed by the claimant for losses above a dollar amount determined by the company.

## **VII. ACKNOWLEDGMENT**

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Elena Vetrina of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Respectfully submitted,

Sarah M. Haeft  
Examiner-in-Charge